

VZCZCXRO3189

RR RUEHDBU RUEHLN RUEHVK RUEHYG

DE RUEHEK #0996/01 2190931

ZNR UUUUU ZZH

R 070931Z AUG 07

FM AMEMBASSY BISHKEK

TO RUEHC/SECSTATE WASHDC 0001

INFO RUCNCIS/CIS COLLECTIVE

RUEHTA/AMEMBASSY ASTANA 1945

RUEHBJ/AMEMBASSY BEIJING 2247

RUEHBUL/AMEMBASSY KABUL 0620

RUEHRC/USDA FAS WASHDC 0107

RHEFDIA/DIA WASHDC

RUEAIIA/CIA WASHDC

RUEKJCS/OSD WASHDC

RHEHNSC/NSC WASHDC

RUCPDOC/USDOC WASHDC 0613

RUEKJCS/SECDEF WASHDC

RUEKJCS/Joint STAFF WASHDC

RUEHGV/USMISSION GENEVA 0683

RUEHVEN/USMISSION USOSCE 2652

RUCNDT/USMISSION USUN NEW YORK 2032

RUEHNO/USMISSION USNATO BRUSSELS BE

RUEHBS/USEU BRUSSELS

RUEHLMC/MILLENNIUM CHALLENGE CORP

RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL

UNCLAS SECTION 01 OF 02 BISHKEK 000996

SIPDIS

SENSITIVE

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DEPT FOR SCA/CEN (GEHRENBECK), ASTANA FOR FAS (GIFFORD)

E.O. 12958: N/A

TAGS: EAGR SENV KG

SUBJECT: SNAPSHOT OF KYRGYZ AGRICULTURAL DIFFICULTIES

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¶1. (SBU) Summary: Shortfalls in agricultural irrigation, coupled with the effects of alleged incompetence at the Kyrgyz Ministry of Agriculture, have negatively impacted the agriculture sector. Man-made problems have exacerbated infestations of gypsy moths, whiteflies, viruses and fungi to diminish apple, plum and pistachio harvests. Farmers are turning away from tobacco and instead are raising livestock, fruits and vegetables, or are selling their land for residential development. Despite various disadvantages, increased credit availability and Kazakh demand for Kyrgyz produce are augmenting rural incomes. However, the Kyrgyz agriculture sector's tired infrastructure will continue to suffer as economic growth and job opportunities outside the agricultural sector distract attention from the sector's problems. End summary.

¶2. (U) Embassy met with Gulnara Shamshieva, director of the Bai Tushum Micro-Lending Bank; Aurelio Lessing, managing director of Dimon International Tobacco Company; Bolotbek Oruzbaev, country director for USAID contractor Winrock International; and Almaz Orozumbekov, professor at the Kyrgyz Agrarian University, to discuss challenges to the Kyrgyz agricultural sector.

Agricultural Backdrop

¶3. (U) Kyrgyzstan was one of the first ex-Soviet republics to privatize agricultural land, but the large number of small family-run plots makes it difficult to achieve efficiencies of scale in agricultural production. Nearly half the Kyrgyz workforce is employed in agriculture or raising livestock, and, according to the Kyrgyz Statistics Committee, these workers earn on average \$80 per month. The elimination of

taxes on agricultural goods and equipment in 2005 improved prospects, but has not overcome the insufficient allocation of resources to maintain the Soviet-era network of wells, pumps and aqueducts used for irrigating agricultural lands. (Note: USAID-funded programs are helping stem the decline in irrigation infrastructure. End note.) As a result, despite the significant allocation of manpower, agriculture only generated 29% of Kyrgyzstan's gross domestic product in 2006.

The Resource Challenge

¶4. (SBU) Despite glaciers and hydroelectric dams supplying year-round water supplies, inadequate distribution of water to agricultural lands is compounded by complaints about the Kyrgyz Ministry of Agriculture. Several Embassy interlocutors "complimented" the Ministry for rendering, through incompetence and to a lesser degree corruption, some successful agricultural programs useless. Complaints ranged from shortfalls in the Ministry's technical assistance in crop selection, fertilizer, pest control and marketing to wasting resources through duplicative programs. These difficulties are compounded by the exodus of agricultural workers to higher-paying jobs in Russia, Kazakhstan and Kyrgyzstan's capital, Bishkek.

Where Have All the Fruits and Nuts Gone?

¶5. (SBU) University professor Almaz Orozumbekov claimed that up to 600,000 hectares of Kyrgyz fruit and nut trees are infested with gypsy moths, whiteflies, viruses and fungi. Onerous customs fees, he noted, make inexpensive gypsy moth traps difficult to obtain. The Agriculture Ministry, he added, has not intervened to alleviate these fees and has failed to provide entomological advice to farmers. The

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whitefly infestation has been contained in the southern Fergana Valley where, Orozumbekov explained, local farmers have devised bacterium treatments and utilized natural parasites to control the whiteflies. Frequent mutations in virus and fungus strains force farmers to routinely reformulate sprays used to combat infestations. The 2006 apple, plum and pistachio harvests suffered greatly from these infestations.

Tobacco Country

¶6. (SBU) Following fluctuations in supply and demand for tobacco that caused some farmers to shift to raising livestock, vegetables or fruit, or selling their land for residential development, Dimon Tobacco's Aurelio Lessing reported a 30% drop in 2006 tobacco production. He estimated that 25,000 hectares of fields remained fallow for lack of seeds or fuel to run machinery. Running at only 75% of capacity, Dimon is encouraging farmers to grow more tobacco by introducing more productive varieties of tobacco, granting interest-free loans for infrastructural support, providing technical assistance and supplying free seeds for farmers who sign contracts. Previously, Dimon provided these incentives without a contractual obligation only to see Kazakh companies buy up the crops.

Rays of Sunshine

¶7. (U) Despite the problems afflicting the sector, rising incomes and more credit are boosting the value of Kyrgyz produce. USAID and European Bank for Reconstruction and Development-supported microcredit initiatives, which focus on the agricultural sector, have provided \$12.5 million in credits to 9,500 individuals over the past two years. Demand for credit has exceeded supply to aid agribusiness, and especially expanded livestock operations. Simultaneously,

anecdotal evidence points to increased exports of Kyrgyz produce to Kazakh markets. (Note: Regional wheat shortages have led to a 20-40% increase in bread prices in Kyrgyzstan. End note.) Plus, a recent deal inked by Prime Minister Atambayev to supply Kyrgyz produce to the Russian armed forces might augment rural incomes.

Comment

¶8. (SBU) While agriculture provides a strong foundation for Kyrgyzstan's economy, most farmland and farming population are located in the country's less urbanized southern reaches and are removed from the growing Kazakh market. Although President Bakiyev's southern roots have raised the profile of rural development issues, the sector's shortcomings require long-term attention. However, while USAID and other donor-funded programs are aiding the Kyrgyz to make improvements in agriculture and other areas, the limited investment and infrastructural problems besetting the agricultural sector are repeated in transportation, power generation, education, medicine and other sectors of the Kyrgyz economy.

YOVANOVITCH